

Trusts 101: What You Need to Know

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Trusts are essential tools for comprehensive estate planning. Why should you consider setting up a trust? They can protect assets, mitigate taxes, prevent disputes, and streamline asset transfer. Let us explore the various trust options available and see if one might suit your situation.

There are two main categories of trusts: revocable and irrevocable.

Revocable Trust

A revocable trust is where you transfer ownership of your assets (money, property, investments) to a trust, but you retain control over them while you're alive.

These are a common type of trust used for estate planning. You can add or remove assets, change beneficiaries, or cancel the trust at any time during your lifetime. You can assign yourself as trustee or a third party in case you become incapacitated.

This trust is considered part of your personal estate for tax purposes. Assets in the trust generally avoid probate, which is a costly and complicated legal process by which a court decides how to distribute assets

after death.

Common types of revocable trusts:

- **Living Trust:** This is a general term for a revocable trust created during your lifetime.
- **Totten Trust** (also known as “Payable on Death” account): A bank account that automatically transfers ownership to the beneficiary upon your death.

Irrevocable Trust

An irrevocable trust is where you transfer ownership of your assets to the trust and give up control of the assets you transfer.

Once created, the trust becomes its own entity, and you generally cannot change or cancel the trust. Assets you transfer to an irrevocable trust are typically removed from your taxable estate since the trust pays taxes separately.

You must appoint a third party as the trustee. The trustee is responsible for managing and distributing assets in the trust.

Common types of irrevocable trusts:

- **Marital Trust:** This trust benefits your spouse and can help minimize estate taxes.
- **Generation-Skipping Trust:** This trust allows you to transfer assets to your grandchildren or other younger beneficiaries, potentially reducing estate taxes.
- **Special Needs Trust:** This trust protects assets for a beneficiary with a disability so they can still qualify for government benefits.
- **Charitable Trust:** This trust benefits a charitable organization. There are two main types. One is a Charitable Remainder Trust. You receive income from the trust for a set period, then the remaining assets go to charity. The other is a Charitable Lead Trust. This trust pays out a set amount to charity for a set period, then the remaining assets go to your beneficiaries.
- **Life Insurance Trust:** This trust owns your life insurance policy, which can help keep the death benefit out of your taxable estate.
- **Spendthrift Trust:** This trust helps protect assets from creditors, as well as set conditions for beneficiaries who may mismanage their money.

This is not an exhaustive list, and there are many other specific types of trusts. To help determine if a trust fund is right for you, consult with an estate planning attorney. Also, work together with your financial advisor to make sure your legacy plan is aligned with your goals.

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